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MSBI - Q1 2018 Midland States Bancorp Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Midland States Bancorp First Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Allyson Pooley of Financial Profiles. Ma'am, you may begin.

Allyson Pooley - *Financial Profiles, Inc. - SVP*

Thank you, and good morning, everyone. Thank you for joining us today for the Midland States Bancorp First Quarter 2018 Earnings Call.

Joining us from Midland's management team are Leon Holschbach, Chief Executive Officer; Jeff Ludwig, President; and Steve Erickson, Chief Financial Officer.

We will be using a slide presentation as part of our discussion this morning. If you haven't done so already, please visit the Webcasts and Presentations page of Midland's Investor Relations website to download a copy of the presentation.

The management team will discuss the first quarter results, and then we'll open the call for your questions.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements with respect to the future performance and financial condition of Midland States Bancorp that involve risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in the company's SEC filings, which are available on the company's website. The company disclaims any obligation to update any forward-looking statements made during the call.

Additionally, management may refer to non-GAAP measures, which are intended to supplement, but not substitute for the most directly comparable GAAP measures. The press release, available on the website, contains the financial and other quantitative information to be discussed today as well as the reconciliation of the GAAP to non-GAAP measures.

And with that, I'll turn the call over to Leon.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman & CEO*

Thanks, Allyson. Good morning, everyone, and welcome to the Midland States earnings call.

On Slide 3, we have a summary of the highlights of the first quarter. Clearly, the most notable event was the completion of our acquisition of the Alpine Bancorp on February 28. This acquisition significantly adds to in enhancing the profile of our bank. Beyond expanding our franchise in Northern Illinois, it improves our liquidity with the addition of an attractive low-cost deposit base and increases our Wealth Management business by approximately 50%.

As a result, our business mix has significantly shifted towards more predictable recurring sources of revenue generated by our core community banking and wealth management businesses.

The integration of Alpine has gone very smoothly so far. One of the key elements of our acquisition strategy is to be very thoughtful and prudent with our integrations, so that we make our new colleagues comfortable at Midland and ensure that there are no disruptions to customer service.

The vast majority of the cost savings will be achieved later in 2018 after we complete the system conversion, which is currently scheduled for mid-July. We did, however, incurred significant acquisition- and integration-related expenses in the first quarter, in-line with our expectations. These expenses represented $0.44 in earnings per share.

When these expenses are excluded, we delivered $0.52 in earnings per share in the first quarter, which we consider to be a solid performance. Given the seasonally slow first quarter, our balance sheet growth from our -- on an organic standpoint was fairly muted though we have a number of other key metrics that trended positively during the quarter.

We saw a nice expansion in our net interest margin, excluding accretion income, due to the higher yield in our loan portfolio and well-controlled funding costs. And we had good expense control with our total noninterest expenses coming in below our expectations when our merger- and integration-related expenses are excluded.

Although our efficiency ratio bumped up this quarter, as we integrate Alpine's operations and achieved the synergies that we project for this deal, we expect to drive steady improvement and efficiencies.

Another significant event in the first quarter was the next step we took in the implementation of our succession plan. Jeff Ludwig was promoted to President of the Company and CEO of the Bank, while Jeff Mefford was promoted to President of the Bank. Both Mr. Ludwig and Mr. Mefford have been right by my side as we built the Midland franchise and have excelled in their respective roles.

The expansion of their responsibilities not only helps us to manage the larger organization that we've become, but it also positions as well for a seamless transition in leadership upon my retirement. We believe that the organization benefits from the continuity of management and a clear understanding of the future leadership of the company.

We also appointed Steve Erickson as CFO. Steve has been with us for 6 years, most recently serving as our Director of Mergers & Acquisitions and leading our planning efforts around the acquisitions of Centrue and Alpine. Steve has a diverse background in accounting, investment banking and the financial services industry that we believe makes him well suited to lead our finance department.

And now I'm going to turn the call over to Mr. Ludwig to walk through the performance of some of our major lines of business. Jeff?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Thanks, Leon. I'm going to start with our lending activities. With the addition of Alpine, our total loans outstanding increased to just over $4 billion at the end of the first quarter. Following our initial purchase accounting adjustments, Alpine contributed $791 million in total loans to our portfolio.

From an organic standpoint, our total loans increased $12 million or 1.5% annualized. We are continuing to be selective in the credits that we pursue in order to mitigate pressure on the loan-to-deposit ratio and protect our net interest margin. One consequence of this approach was a higher level of payoffs this quarter that impacted our overall loan growth. The payoff activity was particularly acute in our commercial real estate portfolio where we are seeing competitors being very aggressive on rates and structures to win deals.

As a result of the selective approach to loan originations in the first quarter, our average rate on new and renewed loans increased 50 basis points from the prior quarter, and our loan-to-deposit ratio declined to 95% from 103% at the end of the prior quarter.

One lending area where we see particularly good trends is in the equipment leasing as a result of the new team that joined us in January. Our lease balance increased $19 million from the end of the prior quarter, and our pipeline in this business has nearly tripled.

Turning to Slide 5, we'll take a look at our deposits. Total deposits were $4.2 billion at the end of the first quarter with Alpine contributing $1.1 billion in deposits. The biggest impact that Alpine has had on our deposit composition is increasing our mix and retail deposits as a portion of total deposit mix. At the end of the first quarter of 2018, retail deposits represented 54% of our total deposits, up from 41% a year ago.

From an organic standpoint, total deposits declined by 1% during the first quarter of 2018. This was due in part to normal fluctuations in public funds and servicing deposits.

Turning to Slide 6. I'm going to review Wealth Management. With the addition of Alpine, our assets under administration reached $3.1 billion at March 31. Our total revenue increased 17% from the prior quarter, primarily due to the 1-month contribution from Alpine's Wealth Management business.

Measuring the organic growth on a year-over-year basis excluding the assets added from Alpine, our total assets under administration increased by 10% as of March 31.

With the growth in this business, Wealth Management has become our single largest contributor to noninterest income. As a higher-margin business that generates steady predictable results each quarter, we believe this is a significant enhancement to our overall business mix.

Turning to Slide 7 and looking at Love Funding. We originated $80 million in rate lock commitments during the quarter and had total commercial FHA revenue of $3.3 million. Relative to the prior quarter, our average gain on locks was higher, which offset lower production volumes.

Our average servicing deposits were $291 million in the first quarter, up 4% from the same quarter last year. Our weighted average cost on the servicing deposits was just 10 basis points.

As we have mentioned before, this business has consistently generated annual revenue in the range of $18 million to $20 million for several years. However, it's been a number of quarters since it produced at that run rate. The current pipeline is healthy, but indicates a year that will be back-end loaded in terms of new production.

Given the size of deals and longer closing times inherent in the commercial FHA business, we believe there is a risk that some of the deals in the pipeline could slip into 2019, which could cause annual revenue this year to come in below the historic range. However, the couple million dollars of variance we're possibly looking at in terms of Love's revenue contribution won't have a meaningful impact on our overall financial results, given that it's becoming a much smaller portion of our business mix following the acquisition of Alpine.

Now I'm going to turn the call over to Steve to walk you through some additional details on our financial results.

Stephen A. Erickson - *Midland States Bancorp, Inc. - CFO*

Thanks, Jeff. Starting with Slide 8, I'll review our net interest income and net interest margin. Our net interest income increased by 6% from the fourth quarter. This was primarily the result of the 1-month contribution of Alpine and was partially offset by a $700,000 decline in accretion income. On a reported basis, our net interest margin decreased 4 basis points to 3.69%, which was entirely attributable to the decline in accretion income.

Excluding the impact of accretion income, we saw expansion in our net interest margin due to a positive shift in our mix of earning assets as well as loan yields increasing more than our funding costs.

As we've indicated over the past few quarters, we continue to expect our net interest margin to be relatively flat going forward excluding the impact of accretion income.

Moving to our noninterest income on Slide 9. Our noninterest income increased to 30% of total revenue compared to 28% last quarter. On an absolute dollar amount, total noninterest income increased $2.6 million or 19% from the prior quarter. The increase was primarily due to 1 month of Alpine's operations. This was partially offset by lower revenue from our residential mortgage banking business, which was entirely attributable to a decline in our servicing income following the sale of a portion of our mortgage servicing rights at the beginning of 2018.

Turning to Slide 10, we'll take a look at our expenses and efficiency ratio. We incurred $11.9 million in integration and acquisition expense in the first quarter. Excluding integration acquisition expenses as well as a $400,000 loss on the mortgage servicing rights recorded in the prior quarter, our noninterest expense increased $4.7 million or 14.1% on a linked-quarter basis. The increase was primarily due to 1 month of expenses associated with the addition of Alpine's operations combined with the expansion of the equipment financing business as well as increased payroll taxes across the company.

Excluding the integration acquisition expenses, our adjusted efficiency ratio was 68.5% in the first quarter compared to 64.6% last quarter. I also want to add a note about our effective tax rate. Due to the addition of Alpine, we now have a greater percentage of our income being generated in Illinois, which is a higher tax rate jurisdiction. As a result, we are now projecting our effective tax rate to be 24% in 2018, up 1 percentage point from our previous expectation.

Moving to Slide 11, we'll look at our asset quality. We saw good stability in the portfolio during the first quarter and hedges 9 basis points of net charge-offs. Our nonperforming loans were essentially unchanged from the prior quarter, but declined as a percentage of total loans due to the addition of Alpine's portfolio. We recorded a provision for loan losses of $2 million, which exceeded the company's net charge-offs of $733,000. This provision brought our allowance to 44 basis points of total loans as of March 31 combined with our credit marks, which account for another 65 basis points.

With that, I'll turn the call back over to Leon.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman & CEO*

Thank you, Mr. Erickson. We'll wrap up on Slide 12 with some comments on our future outlook. Our primary focus of the next few quarters will be completing the integration of Alpine. The system conversion is scheduled for mid-July, and we should get some cost savings during the third quarter before seeing the bulk of the cost savings recognized in the fourth quarter.

From the standpoint of new business development, we are seeing a highly competitive market for both loans and deposits. Particularly in areas like commercial real estate, we are seeing many deals being done at REIT that just don't make economic sense for us when you consider the cost of the incremental funding to book those loans. We are continuing to be very selective to loans we put on our books. And as we look ahead to the remainder of 2018, we are putting more emphasis on those lending areas with more attractive risk-adjusted yields, such as our equipment finance business.

This strategy will help us to manage our loan-to-deposit ratio and protect our net interest margin. Although it will likely result in organic loan growth coming in lower than our historical average this year probably somewhere in the middle single digits. We believe this is a prudent approach in the current environment. We still expect to see solid revenue growth coming from both spread income and fee income, while the integration of Alpine should drive cost savings and improved efficiencies.

On a net-net basis with the combination of revenue growth and higher efficiencies, we feel comfortable in our ability to meet the current Street expectations for our earnings performance for the balance of the year. And with the larger contributions from our core banking and wealth management businesses, our overall revenue mix will continue to shift towards more stable sources of income, which we believe will have a positive impact on the value of our franchise.

And with that, we'll be happy to take questions, any that you may have. Operator, please open up the call line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Kevin Reevey of D.A. Davidson.

Kevin Kennedy Reevey - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

So just to get all clarifications. So it sounds like you are -- when you include the community banking and wealth management, that should be a larger share of total revenues. But I think the last quarter was somewhere in the 80% to 85% range. Is that still kind of the goal?

Stephen A. Erickson - *Midland States Bancorp, Inc. - CFO*

Yes, that's the goal, the 85% on -- we'll check that quick. But yes, the idea is that we're moving more to the community banking revenue and wealth management revenue, which is more reoccurring and stable and predictable unless on the Love Funding business and mortgage business, which will still contribute to revenue, but not at the same mix that it had historically.

Kevin Kennedy Reevey - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

And then if I heard you correctly on the Love Funding, I know the revenue -- it sounds like the revenue is going to be a little more lumpy, but the lion's share is going to be in the second half. If I heard you correctly, is that -- is the $18 million to $20 million goal, is that still achievable? Or is that not achievable kind of in a worst-case scenario, given kind of the elongated time to close?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes, so as we look at the business as we sit here today, it still looks achievable. And the risk though is that the revenue has been pushed back in the back part of the year. And what we've seen historically, that may happen in the fourth quarter deal flipped to the next year. So I guess we're indicating some risk to that $18 million to $20 million kind of historical revenue rate. We still think there's -- we're optimistic that we can get there. And we still think going forward, it is $18 million to $20 million business with some risk towards the back part of the year with some revenue being pushed back.

Kevin Kennedy Reevey - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

And then lastly, given where we are in the real estate cycle, are there certain areas that you are less enthusiastic about from a geographic standpoint than others?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Our geographic lending is mostly in Illinois and surrounding states. We do follow customers outside of Illinois. Our leasing businesses is more on a national basis, and we are seeing good demand in that business as we said that the pipeline has tripled. So the new team we brought on earlier this year is hitting the ground running and doing a nice job for us. So most of the -- and in Illinois in the Midwest is typically less cyclical when it comes to real estate than what you get on the coasts.

Operator

Our next question comes from Terry McEvoy with Stevens.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

Maybe just start with the question on expenses. Looks like it was $37 million on a core basis. If I add in 2 more months of Alpine, could you just help me understand maybe a good run rate for the second quarter? And then maybe looking out into 4Q '18, will you have all the cost saves from Alpine realized? And then what are your thoughts around expenses in 4Q?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes, so we're a little reluctant to get into some details because, as you know, there's a lot of moving parts as we're moving into integration of Alpine. So there is costs coming in, there is some costs coming out. And I think in Leon's outlook, we said we feel pretty comfortable about where analysts are with their estimates going forward. So instead of trying to guide to particular guidance, maybe a little less comfortable with that right now. Maybe provide some more clarity into the fourth quarter, next quarter but feel pretty comfortable about the bottom line numbers that are in the consensus as you move into second, third and fourth quarter. I know that might not be that helpful for you to pin down your expense line. But you're right, I mean, it's -- Alpine is going to be in the expense line for 2 months next quarter and they're only in for a full quarter next for the second quarter and only 1 month in the first quarter.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

Okay. I understand that. And then I guess looking at Wealth Management, Alpine came into the mix and you talked about it on the call. Is there any seasonality in that business? And how do we think about revenue trends from here on a full quarter basis and then layering in Alpine?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes. So Alpine was the primary driver on the increase in revenue this quarter. So we'll have 2 more months in this -- we'll pick up 2 months in the second quarter. And then we see that business -- I don't want to say there is seasonality to the business. It's pretty steady, steady grower, probably in that mid-single-digit growth rate. We have seen higher growth rate -- our assets on an organic basis grew 10% from first quarter '17 to first quarter '18, so we did see nice growth. Now we had a good market last year. That helped. So -- but probably in our -- or on an organic basis, that kind of mid-single digits and then some market help kind of can help us push to 10%. But the market part is hard to -- we don't budget to that.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

And then just one last question, just to help me with Love Funding, and thanks for running through your thoughts on revenue. The deposits associated with that business were actually up 4% year-over-year though the revenue side declines. Could you just help me understand why -- what makes the deposits stable? And is there a risk, if that business declines, that you lose those very attractive deposits?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes, so the deposits are from our servicing portfolio. So as we're originating the loans each quarter, which -- so we originated $80 million and -- or we rate lock $80 million. So we're putting $80 million into the servicing portfolio. Those $80 million -- that $80 million of loan has deposits associated with it replacement reserves, normal escrow payments. So there's -- as we're building the servicing book of business, which we do every quarter as where our production is happening, we're increasing the deposit base there. So the good thing is -- the real nice thing about that business is yes, there's some ups and downs on the revenue side, but that -- those loans are going into the servicing book, creating deposits at pretty attractive rates that are stable and they continue to be stable.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman & CEO*

Yes, and as we kind of talked about earlier. Good morning, this is Leon. As we talked about earlier, as a public company, as we're describing Love Funding, those reserves are mandatory requirements. They're not optional. The customers can't move them around and their -- and although we have to be sensitive about rate, they are relatively insensitive about rate because they are not investment accounts. They're purpose accounts, CapEx and so on. And so that is -- that will prove to be, especially in this rising rate environment, that will prove to be just the (inaudible) because of its steadiness and its low cost.

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes. And Leon, so the deposits are required. And even as the loans are paying down, there's still a level of requirement that needs to be there to maintain the property.

Operator

Our next question comes from Michael Perito with KBW.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

I've got a handful of questions. I wanted to start with a quick one on the mortgage business. I guess, (inaudible) of closings in the quarter at 50 percentage of refi purchase on those. I think it was $60 million in the fourth quarter?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes, hold on a minute, Mike. Somebody is going to grab that for us. Ask me your next question.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And then I guess, just in terms of -- can you give us an update on that business? I know you've done some things in the personnel side. I'm just trying to think of maybe where production could go the next couple of quarters, which are typically seasonally stronger with the team you have. Just curious on any thoughts you have.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman & CEO*

Yes, good question. Go ahead, Jeff.

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes. I think we've put it out in a call or two before, we're looking to rebuild the production on the residential side. As you know, we lost that team in Colorado back in the second quarter of last year and we're beginning to hire LOs now. I think we've probably put on 7 net new as we're heading into the better season in the Midwest, our second and third quarter. So we would expect our revenues there to increase as we head into this next quarter.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And the refi percentage growth?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes, the refi percentage in the second quarter, 29%.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And what was the closings, where did they go, the $6 million last quarter?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

$62 million in closings.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Okay. Helpful. And then -- i want to -- 2 questions on the expenses. One, I guess the merger costs. Are there any more that are going to come through next quarter that you guys have insight to?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

So I think when we announced the deal, we said $19.5 million, roughly. So $11.5 million came through this quarter. I would expect the second quarter to be lighter. And then the third quarter, when we do the conversion, there is contracts that get canceled and termination costs associated with that and some more people expense. So lighter in the second quarter and then a little heavier in the third quarter and should be pretty light as we get to the fourth quarter and hopefully all gone as we get to '19.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Of the $7 million or so (inaudible) proportionally will be in the third quarter than the next quarter?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Okay. And then, obviously, I understand the moving parts with Alpine went up, but it seemed like I could be wrong, but it seemed like relative to expectations, the legacy Midland expense rate -- quarterly rate was lower, at least from what I was expecting. And I'm just curious if there was anything notable that you guys did or that we should be thinking about as we move to see the next 2 quarters here and layering Alpine in. I mean, was there some expense moderation that was notable? It just seems a little lower to me than what I was expecting, but just curious if you guys have any thoughts of taking it from that perspective?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

I'm not sure if there's anything notable. We're continuing to manage the expense line very -- in a very disciplined way. So I don't know if there's anything notable like -- anything big that we did in the quarter that would have driven expenses down. Yes, we had natural lifts in payroll taxes that you have in the first quarter, so that was a head -- a little bit of a headwind. And yes, we hired the bulk of the leasing team came in January, so there was a little bit of a headwind there. But we were able to kind of save in some other areas to hold our operating expenses, I think, in a pretty good spot. So I think as we move forward, we have a 68% efficiency ratio. We should be able to begin to drive that now lower.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Okay. I mean, do you anticipate on the legacy side of the business? Anything that would materially drive up that run rate or other higher is there anything like that in the -- just talk in legacy like excluding Alpine in the expense quarter run rate for the rest of the year?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

No, our big investment this year really was our leasing team. We don't see any other big personnel hires that we need to do. I think we feel pretty good about...

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman & CEO*

They're getting rid of their CEO at the end of the year, so that will knock about $10,000 off of the -- but then again, there's nothing as of yet.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Yes. Very good. And then just one last quick one for me, maybe for Steve. But the total -- if I look at the period in balance sheet, the total liquidity position cash and securities was about $1 billion, give or take. Is that a good level for the institution going forward? I mean, I know the mix between cash and securities might fluctuate, but is that overall level kind of a good place to be for us as we move through the rest of the year?

Stephen A. Erickson - *Midland States Bancorp, Inc. - CFO*

I think as far as liquidity is concerned, I think we need to probably bring that down a little bit. I think we'll be looking for ways to reinvest that elsewhere. But we're generally, probably at a good spot and -- but I think there's some room to maybe bring that down and enhance some earnings now.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Depending on loan growth, probably, right?

Stephen A. Erickson - *Midland States Bancorp, Inc. - CFO*

You're right. Yes, right.

Operator

(Operator Instructions) Our next question comes from the line of Andrew Liesch with Sandler O'Neill.

Andrew Brian Liesch - *Sandler O'Neill + Partners, L.P., Research Division - MD*

Covered most of my questions, but I just want to look at some of the fee income items here, namely service charges, interchange, the other lines, those are all up. Was that driven by Alpine? Or was there anything in there that may not recur this quarter? Or are these good run rates being build on Alpine for the fourth quarter?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes, I think that's right. Build on Alpine for the full quarter is probably the best way to look at it.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman & CEO*

Yes, they've got 1 month in the first quarter. Full quarters from hereon and yes, that's the most of it.

Operator

And next, we have a follow-up from the line of Kevin Reevey of D. A. Davidson.

Kevin Kennedy Reevey - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Yes, a quick question on capital and your capital levels, looks like your TCE to TA came down. Looks like it was about 6.9%. Do you have any targets that you're -- is that an area you're comfortable with? Do you expect it to go higher?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

Yes. I'll take that, Kevin. Yes, so we did -- we just did the Alpine acquisition. We knew that our TCE would come down and probably come down slightly below 7%. At this point, we don't think we need to go raise any capital. We are in the rebuild capital mode as we integrate Alpine in here and begin to hit the earnings targets that we've set we'll drive more retained earnings and more capital and we'll begin to build that ratio back up. And to your question, Kevin, on the percentage of mortgage revenue to other revenue, you're right. 85% is -- and so 15% on mortgage and Love.

Operator

And I am showing no further questions in queue at this time. I would like to turn the conference back over to management for closing remarks.

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Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - President*

All right. Thanks for joining us everyone. That's all we have for this morning, and we will talk again in the quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes today's program. You may now disconnect. Everyone, have a great day.